DIRECT TESTIMONY OF

KEITH C. COFFER, JR.

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2014-2-E

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is Keith C. Coffer, Jr. and my business address is 220 Operation Way, Cayce, South Carolina. I am the Director of Accounting and Financial Reporting for SCANA Corporation and South Carolina Electric & Gas Company (the "Company" or "SCE&G").

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I earned a Bachelor of Science degree in Business Administration from The Citadel in May 1992. After fulfilling a military training obligation, I joined the South Carolina State Auditor's Office as an auditor. In August 1995, I left this position to work with the public accounting firm of Hamilton, Schmoyer & Co. In July 1997, I accepted a position in SCANA's internal audit department and, in January 1999, I was promoted to Customer Billing Supervisor, where I was responsible for ensuring accurate billings to SCE&G's residential and commercial customers and ensuring the accuracy of accounting transactions within the billing cycle. In July 2000, I was promoted to Supervisor of Property

Accounting, where I was responsible for accounting for SCE&G's fixed assets. I was promoted to Assistant Controller of SCE&G in October 2002 and assumed responsibility for the accounting function for SCE&G. In January 2014, I was promoted to my current position as Director of Accounting and Financial Reporting. My responsibilities include ensuring that all business transactions are accounted for in accordance with applicable accounting principles and that the Company maintains an adequate system of internal accounting controls. I am a certified public accountant in South Carolina and I am a member of the American Institute of Certified Public Accountants and the South Carolina Association of Certified Public Accountants.

Q. HAVE YOU PRESENTED TESTIMONY TO THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION") BEFORE?

A. Yes. I have testified before this Commission in previous proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will explain the Company's use of approximately $42 million of gains from the settlement of certain forward-starting interest rate swap contracts ("swaps") for the benefit of its customers by offsetting fuel costs, as authorized by this Commission in Order No. 2013-776, issued on November 8, 2013, in Docket No. 2013-382-E. I will also discuss how the Company has proposed to apply the remaining settlement gains for the benefit of its customers. Finally, I conclude my testimony by discussing the Company's adjustment to its Rider

Related to Pension Costs ("Pension Rider") proposed in Docket No. 2014-88-E, which, if approved, will have the effect of offsetting the adjustment in the Company's base fuel factor proposed in this proceeding.

INTEREST RATE SWAPS

Q. PLEASE DESCRIBE AND EXPLAIN THE NATURE OF SWAPS.

A. A swap is a financial contract in which the Company agrees, upon issuing debt at some specified future time, to make payments to a counterparty based on the prevailing fixed market interest rate at the time of entry into the contract. In turn, the counterparty agrees to make payments to the Company based on a variable benchmark interest rate such as the London Interbank Offered Rate ("LIBOR"). At the inception of the contract, the two payment streams fully offset and the swap has no fair value to either party.

Q. PLEASE EXPLAIN THE EFFECT THAT FUTURE CHANGES IN THE SPECIFIED VARIABLE BENCHMARK INTEREST RATE HAVE ON THE VALUE OF THE SWAPS.

A. As interest rates rise and fall, the fair value of the swaps will increase or decrease. Specifically, if the benchmark interest rate rises after the swap becomes effective, the Company will be in a gain position because the payments it receives will exceed the payments it makes. Upon settlement of a swap that is in a gain position, the Company will realize that gain and receive a cash payment from the counterparty. If, conversely, the benchmark interest rate subsequently falls, the Company will be in a loss position because the payments it receives will be less than the payments it makes. Upon settlement of a swap in a loss position, the Company will realize that loss and make a cash payment to the counterparty.

Q. FOR WHAT PURPOSE DOES THE COMPANY ENTER INTO SWAPS?

A. The Company enters into swaps as a way of mitigating the risks of interest rate volatility during periods when it is anticipating the issuance of long-term debt. The swaps effectively allow the Company to "lock in" a known or fixed interest rate. The concept is similar to what an individual may do in anticipation of entering into a home mortgage. Upon issuance of the planned debt, the Company generally settles the swap with the counterparty and either receives a cash payment for a swap in a gain position or makes a cash payment for a swap in a loss position.

Q. PLEASE EXPLAIN HOW A SWAP EFFECTIVELY "LOCKS IN" AN INTEREST RATE.

A. If interest rates rise between the time the swap contract is entered into and the time the debt is issued, the Company will incur greater interest expense upon issuance of the debt as a result of the rising interest rates. At the same time, however, the value of the swap will increase to a gain position. This gain is then amortized as a reduction to interest expense over the life of the debt, thereby effectively reducing the Company's net interest costs to the interest rate locked in by the swap.

If, on the other hand, interest rates fall between the time the swap is executed and the debt issued, the Company will incur lower interest expense upon issuance of the debt as a result of the falling interest rates. However, this will cause the value of the swap to decrease to a loss position. The loss the Company realizes by settling the swap is amortized over the life of the debt issuance as an increase to interest expense, which effectively fixes the Company's net interest costs at the interest rate locked in by the swap.

Q. HAS THE COMMISSION APPROVED THE USE OF GAINS FROM THE SETTLEMENT OF THESE SWAPS TO OFFSET THE COMPANY'S FUEL COSTS?

A. Yes. In Order No. 2013-776, issued on November 8, 2013, in Docket No. 2013-382-E, the Commission expressly authorized the Company to use any gains realized from the settlement of swaps "for the benefit of its customers through offsetting fuel costs or offsetting interest expense." That order also provided that any losses realized by the Company would be amortized to interest expense over the life of the debt issuance.

Q. PLEASE EXPLAIN THE CIRCUMSTANCES LEADING TO THE COMPANY'S PETITION FOR AN ACCOUNTING ORDER AUTHORIZING IT TO USE GAINS FROM THE SETTLEMENT OF THESE SWAPS TO OFFSET FUEL COSTS AS WELL AS INTEREST EXPENSE.

A. As noted above, gains or losses realized by the Company on the settlement of a swap are ordinarily amortized to interest expense and passed to customers as part of the Company's weighted average cost of capital over the life of the debt issue, generally 30 years. As such, customers receive the full benefit of gains on swap contracts, but over an extended period of time.

As a result of the rising interest rate environment in late 2013, the Company found itself in a substantial gain position with respect to several swaps. Due to the continued uncertainty in the interest rate market, the Company determined that it was in the best interest of its customers to settle open swaps and capture these significant gains and also to consider ways in which the benefits might be provided to its customers more quickly. Accordingly, in the fourth quarter of 2013, the Company settled certain open interest rate swaps realizing gains totaling approximately $120 million.

Q. WHAT AMOUNT OF GAIN REALIZED FROM THE SETTLEMENT OF THE SWAPS DID THE COMPANY USE TO OFFSET FUEL COSTS DURING 2013?

A. In accordance with the Commission's authorization in Order No. 2013-776, the Company utilized $41,645,809 of gains from the settlement of swaps to reduce fuel costs in 2013, thereby lowering the undercollected fuel cost balance at issue in this particular proceeding. That reduction is reflected in the exhibits to the direct testimony of Company Witness Allen Rooks submitted as part of this proceeding.

Q. HOW HAS THE COMPANY PROPOSED TO APPLY OTHER GAINS FROM THE SETTLEMENT OF THESE SWAPS FOR THE BENEFIT OF ITS CUSTOMERS?

A. In accordance with Order No. 2013-900, issued on December 20, 2013, in Docket No. 2012-218-E, the Company utilized $8,461,020 of gains from swaps to offset an Electric Weather Normalization Adjustment ("eWNA") undercollection as part of the termination of the eWNA program. Also in accordance with Order No. 2013-900, the Company will utilize up to $300,000 to offset the costs of a special campaign to promote its Budget Billing Program in December 2013 and the first and second quarters of 2014. In addition, in its Annual Update on Demand Side Management Programs ("DSM Programs") and Petition to Update Rate Rider filed in Docket No. 2014-44-E, the Company proposed to utlilize a portion of the remaining gains to offset certain net lost revenues associated with the DSM Programs. Finally, after giving effect to these offsets, the Company is proposing to apply the remaining balance of the $120 million gain from the settlement of swaps (presently estimated to be approximately $46 million) to further reduce fuel costs. This additional reduction to fuel costs is also reflected in the exhibits to the direct testimony of Company Witness Rooks.

ADJUSTMENT TO RIDER RELATED TO PENSION COSTS

Q. **PLEASE EXPLAIN HOW THE COMPANY'S FILING IN DOCKET NO. 2014-88-E, PROPOSING TO DECREASE THE PENSION RIDER, OFFSETS THE ADJUSTMENT TO THE BASE FUEL FACTOR PROPOSED IN THIS PROCEEDING.**

A**.** In Order No. 2012-951, issued on December 20, 2012, in Docket No. 2012-218-E, the Commission approved a Pension Rider to recover the Company's pension costs related to retail electric operations. This Pension Rider, which is subject to an annual true up depending on conditions in financial markets and other factors, was initially set at $0.00051 per kilowatt-hour ("kWh") based on estimates and actuarial assumption in effect at that time. Based upon the recent performance of financial markets, the rising interest rate environment discussed above, and the Company's amendment to the pension plan to close it to new entrants as of January 2014 and to cease most benefit accruals as of January 1, 2024, current actuarial estimates reflect a decrease in pension costs. Based on these current actuarial estimates, the Company projects there would be an over-collection of pension costs of approximately $10.3 million as of April 2015 without a reduction in the currently approved Pension Rider. Consequently, the Company is proposing in Docket No. 2014-88-E, to decrease the Pension Rider from the currently approved $0.00051 per kilowatt-hour ("kWh") to $0.00004 per kWh, resulting in a reduction in the Pension Rider of $0.00047 per kWh. In this proceeding, the Company proposes an offsetting adjustment to its base fuel factor of $0.00047 per kWh, resulting in no net increase to retail electric customers' bills.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.